GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:3415
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NBFC/Chit fund Frauds
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Will the Minister of FINANCE be pleased to state:

a) whether the Government has noticed that a number of Non-Banking Finance Companies (NBFCs) Multi Level Marketing (MLM)/Chit Fund companies are increasing day by day in the country and operating without requisite registration;
b) if so, the details thereof including the name of the said companies against whom complaints regarding non-payment of investors money have been received by the Reserve Bank of India during the last three years and the current year, company and State-wise;
c) whether the Government has any proposal to regulate/scrutinise such companies in the wake of the recent scams noticed therein and if so, the details thereof; and
d) the monitoring mechanism put in place by the Government to keep a check on the activities of the said companies and protecting interests of the investors?

Answer

The Minister of State in the Ministry of Finance

(a): Reserve Bank of India(RBI) is conducting a one-time exercise based on the list of 34,754 Companies forwarded by the Ministry of Corporate Affairs (MCA) which are registered under Companies Act, 1956 and classified/ categorized as 'NBFCs' in the records of MCA and these Companies may be carrying on Non-Banking Financial Institution (NBFI) activities without mandatory registration as required under Section 45IA of RBI Act, 1934 as only 12,375 Companies are registered with RBI as NBFCs (as on February, 2013). MCA had requested RBI to initiate action again such Companies. While several Companies in the list were not registered with RBI as NBFCs, the list also did not contain some companies already registered with RBI. Chit Funds are registered and regulated by the State Governments under the Chit Funds Act, 1982. Further, money circulation schemes are prohibited under the Prize Chits and Money Circulations (Schemes) Banning Act, 1978 and the States are the implementing agencies under the Act.
However, CBI has registered/investigated 82 Regular Cases relating to chit fund companies/ Non-Banking Finance Companies(NBFCs)/Multi Level Marketing(MLM) and Directorate of Enforcement is investigating 42 cases relating to financial frauds/cheating in the name of chit funds and other investment schemes under Prevention of Money Laundering Act, 2002(PMLA) during the last three years and current years.
(b): RBI has reported that there are 1176 NBFCs operating in different States/ Union Territories which are not registered with RBI, against whom complaints regarding Non Payment of investor's money have been received or noticed by the RBI during the last three calendar years and till November 30, 2015.
(c) & (d): RBI, as a one-time measure, examined the financials of all these companies (other than those registered with the Bank) to ascertain their requirement or otherwise for registration with the Bank. The main objective is to determine whether among these companies there are companies that ought to have registered with the RBI for carrying on their NBFI activities. The updated position is tabulated as under on the basis of preliminary examination of the financials and the action taken by the Bank thereafter:-

Sr. No.	Category	No. of companies
1	Companies Referred by MCA to RBI	34,754
2	Of the above, Companies registered with RBI as NBFCs	4,585
3	Companies in MCA Database, not registered with RBI	30,169
4	Of the above (3), Companies under Liquidation	4,302
5	Of the above (3), Companies whose B/S not available on MCA website	4,253
6	Companies, which required further investigation (3-4-5)	21,614
7	Of the above (6), Companies found not meeting PBC criteria, i.e. are not considered as NBFCs	16,309
8	Of the above (6), Companies prima-facie meeting PBC (Letters of Explanation issued to all the companies)	5,305

Of the above (8) :

Companies suspected of holding public deposits	104
i) Of (A), No. of companies found to be holding public deposits on detailed scrutiny/ analysis	NIL
Cases taken up for detailed review (approx.)	2,300
Scrutiny conducted	1326
Cases closed (on account of companies not meeting PBC / registered with another regulator)	1555
Referred back to MCA (since the company was not found on its registered address)	297

As may be observed from above that there were 5305 companies prima facie observed to be carrying out NBFI activity. Since the conclusions were arrived at on the basis of information available on MCA website, the RBI had issued a 'letter of explanation' to the companies providing them an opportunity to clarify their position, before initiating action for violation of the RBI Act.

The RBI made its action plan giving priorities to certain categories of companies, e.g. the companies suspected of accepting deposits, large Non- deposit taking companies etc. A graded approach to deal with these cases, having regard to the nature of violations, has been adopted by the RBI. The RBI had also carried out scrutiny/visits of the companies suspected of accepting deposits. However, as can be seen from the Table above (row A (i)), RBI has observed that none of the companies was accepting/ holding any public deposits, and as such there was no concern from the perspective of non-repayment of investors' money.

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